

Letter from the Chairman

Dear Shareholders

This first year as Chairman of Oerlikon has been a challenging albeit inspiring period. All in all, against the backdrop of the difficult geopolitical and market developments, Oerlikon did well in sustaining its strong operating profitability¹ and advancing its leading technology position.

At the end of 2014, the macroeconomic outlook was relatively optimistic. This was supported by the projections that China would sustain its growth level, Europe would be supported by the stimulus measures of the European Central Bank and the U.S. economic recovery would continue. Instead, the global economic and market challenges in 2015 turned out to be broader and greater than envisaged. China's economic deceleration and the change in its political agenda were chief among these challenges and reverberated throughout Asia and beyond. Europe experienced slower-than-expected economic recovery and political challenges, while economic growth in the USA was uneven and South America declined sharply, mainly due to the fall in commodity prices. The agricultural, automotive and textile industries were hit especially hard. Moreover, a continued and precipitous drop in oil prices had a harsh effect on the energy sector and on industrial companies around the world. Oerlikon serves customers in all these markets, and the difficult environment affected their investment capabilities, which inevitably impacted our performance.

However, it is important that we put these shorter-term developments into perspective. Major macroeconomic megatrends such as population growth, increases in mobility and energy needs, and urbanization will further drive the demand for technologies and solutions like ours. The automotive, aviation, energy, process engineering and textiles markets will continue to grow, but at the same time, they need to become more energy efficient, achieve higher levels of productivity, minimize the use of scarce resources and improve their environmental sustainability. We believe that a solution to these challenges will come from better materials processing, lighter and stronger materials and materials with new properties. Thus, we have set a new strategy to take better advantage of these opportunities.

In 2014, Brice Koch was appointed CEO. He was mandated with the task of defining Oerlikon's strategy and building the Group's foundation for the next phase of its development. In order to support this process, the Executive Committee and the Board of Directors were successively reinforced with members who have comprehensive market and technology knowledge.

Shortly after the newly formed Board was elected, we completed the review of the Group's strategy and sharpened it, putting a strong focus on our core competencies. Our objective is to transform the Group from an industrial conglomerate to a company with a clearly defined focus, building on our strengths and innovative technologies in surface solutions, advanced materials and materials processing. In principle, we want to be in businesses where we hold the number one or two market position, offering unrivaled and not "me-too" technologies and solutions.



Our new strategy targets markets in the automotive, aerospace, energy and tooling industries. To accelerate the execution of the strategy, we need an experienced industry expert with extensive experience in these key industries and markets. Dr. Roland Fischer brings in-depth expertise and the best set of leadership skills and management competencies to lead the company into its next phase of development.

The transformation of Oerlikon began back in 2012 with the first major divestment of the Solar Segment. In 2015, we accelerated the process, closing the sale of the Advanced Technologies Segment and moving forward with the divestment of the Vacuum Segment, which we announced in November and expect to close the transaction by the middle of 2016. As we progress with our transition, we will be using our strong balance sheet to fund organic and inorganic growth.

The acquisition of Metco in 2014 was of special significance in that its addition to Oerlikon and combination with Oerlikon Balzers has led to our ability to offer a broad, versatile portfolio of innovative materials, equipment and solutions. Coupled with a highly valued competence in application engineering and the largest global network of surface solutions production and service centers, we have created a strong platform for further growth. We are becoming a worldwide technology leader in surface solutions and advanced materials. Despite the fact that we performed well with the integration of Metco and sustained the strong profitability of the Segment in 2015, we have to do more. We must leverage the unique market position we hold with our surface technologies, advanced materials, components engineering and materials processing, and better capitalize on their potential going forward. As such, we need to further penetrate our existing markets, enter new markets and exploit synergies within the Segment to increase profitability.

In some key markets, such as aviation and automotive, we already hold strong market positions. We are also seeing that more and more industries are discovering the substantial value of surface technologies. Added to that, new industries such as medical devices or high-end consumer products are increasingly using surface solutions and advanced materials to develop innovative new

¹ Normalized EBITDA margin of 16.9%: 2015 excluding restructuring costs; 2014 restated and normalized.

products and to increase their performance. Another promising area is metal-based additive manufacturing (AM). Although at an early stage of the market cycle, it is growing fast in technology development and industrial application. There are substantial opportunities to develop next-generation materials designed for AM production processes, and to provide novel and superior solutions for products that require customization.

For the manmade fibers business, we are currently seeing a trough in the market for chemical fibers, afflicted by overinvestment and overcapacity in the past few years. However, the long-term fundamentals for the manmade fibers market remain intact and are supported by strong sustainable structural growth and demand. The increasing global population will continue to drive clothing needs. We have also noted opportunities in new applications such as nonwoven technologies used in water and air filtration, and more energy-efficient and resource-effective production solutions such as recycling technologies. In addition, the threat of water scarcity makes the production of manmade fibers attractive, given its better environmental footprint. However, we anticipate that the next two years will continue to be difficult. To make this Segment even more robust, we have started to implement restructuring measures that will support us in balancing out some of the market's developments and ensuring that we are well positioned to benefit from the upswing over the medium term. We are also intensifying our efforts in developing the business in markets such as India, Southeast Asia, Russia and Latin America. These measures will support us to return to profitability even with lower top lines. We estimate that the fibers markets will regain momentum in 2018.

In 2015, almost all the sectors in the drive systems business such as construction, agriculture, mining and oil & gas suffered serious setbacks, triggered by negative economic and commodity orientations. These markets are long-term beneficiaries of the above-mentioned macroeconomic megatrends – including the constant and growing demand for mobility, food and energy. However, the headwinds faced by the markets have required us to account for a goodwill impairment for the Drive Systems Segment. To improve the Segment's competitiveness and to better weather market fluctuations, we have taken decisive actions to focus the business on key product lines serving long-term growth markets.

At Oerlikon, we have a strong commitment to research and innovation. Developing new and innovative technologies is a key cornerstone of our culture and strategy. Even in a challenging year such as 2015, we maintained our innovation momentum and invested around 4 % of our revenues in R&D – a notable percentage compared to many of our industry peers. And innovation is not limited to new technologies. We also apply our innovative mindset to our production, operational excellence, quality and service processes – all with the aim of offering better value to our customers and expanding our presence in key markets.

Our efforts in innovation and customer focus are supported by our programs to continuously improve our operational excellence and agility. Taking into account today's economic market environment and dynamics, we further increased efficiency, cost-effectiveness and the flexibility within our processes in areas such as go-to-

market strategies, R&D, supply chain management and production. As the benefits from our operational excellence and cost initiatives gain traction, we will continue to strengthen the Group, making it more agile to respond to both changes and opportunities.

The geopolitical uncertainties and market difficulties in 2015 also led to turbulence in global stock markets. For companies reporting in Swiss francs, the Swiss National Bank's decision to remove the enforced ceiling of the Swiss franc to the euro added to the adverse developments. The share price of Oerlikon was impacted by these negative events and developed at an unsatisfactory rate. While we are naturally not pleased with the situation, we recognize that this is the current reality faced by the industry and our peers, which we cannot control.

However, one avenue for returning value and capital to shareholders that we can control at Oerlikon is through annual dividend payments, which is central for us. Thus, we will recommend a dividend payout of CHF 0.30 per share at the 2016 Annual General Meeting of Shareholders – the same amount paid out in the previous year.

I would like to take the opportunity here to extend, on behalf of the Board, our thanks to Brice Koch for his valuable contributions and for the strategic developments. I would also like to thank all employees of Oerlikon, my colleagues on the Board and the management team for their hard work and dedication, and customers around the world who build on our innovative technologies.

Last but not least, I would like to thank you, our shareholders, for the trust you place in us and in Oerlikon even during such challenging times. This change at the helm of Oerlikon is a decision for Oerlikon, and we are confident that we have the best person in place to advance the strategy of the Group, making it a company that can effectively seize future opportunities. The direction forward will empower us to build significant value for shareholders and all other stakeholders over the long term.

March 1, 2016

Sincerely



Prof. Dr. Michael Süss
Chairman of the Board of Directors